

Federal Business Assistance Declines Modestly

As Federal dollars become scarcer, business assistance programs are increasingly more innovative. Direct loans are little used. Important program changes go beyond loan mechanisms such as loan guarantees. All program agencies have also implemented evaluation goals to improve the overall efficiency of program operations.

Many Federal programs provide technical and financial assistance for rural business development. These programs share the goal of providing needed capital to help rural communities create sustainable businesses in an increasingly global marketplace. Three agencies provide most of the business assistance programs: the Small Business Administration (SBA), U.S. Department of Agriculture (USDA), and the U.S. Department of Commerce (Commerce). USDA's programs serve a primarily nonmetro clientele, while programs administered by the SBA and Commerce are available to both metro and non-metro clients.

SBA has 14 small business development programs, more than any other agency. SBA's Small Business Loan Guarantee Program is the largest program in terms of dollars obligated. USDA's seven programs fill important niches in rural America. Commerce administers several programs designed to improve the competitive and technological edge of U.S. companies, but most of their programs benefit larger businesses. Business assistance has evolved gradually to include more technical assistance, but the current emphasis remains on improving access to financial assistance.

Federal financial business assistance consists of direct loans, guaranteed loans, and grants (see appendix for definition of terms). Eligibility requirements tend to be similar across programs at both USDA and SBA. Both agencies require that an applicant be unable to obtain financing elsewhere and that they demonstrate the ability to repay. Guaranteed loans have increased in popularity since the early 1980's, and are typically made through commercial lenders.

Grant programs, such as Commerce's Economic Development Administration's (EDA) title IX, typically provide local governments and nonprofit institutions with seed money enabling them to finance local business development. Seed money is most often used to fund either technical (nonfinancial) assistance or a revolving loan fund (RLF). RLF's are designed to provide a sustainable supply of capital because, as the loans are repaid, the original capital plus interest earnings is available to finance new projects. RLF's also try to leverage private investment. Grant applicants usually must demonstrate that they are located in areas that are experiencing chronic high unemployment or a major economic dislocation. Grant recipients typically have broad discretion in establishing credit standards used to determine borrower eligibility.

Many small businesses need more than capital. Technical assistance programs provide financial and business management training. They also provide development planning and other strategic assistance, mostly through project grants that fund cooperative agreements.

Most Nonmetro Counties Receive Some Form of Business Assistance

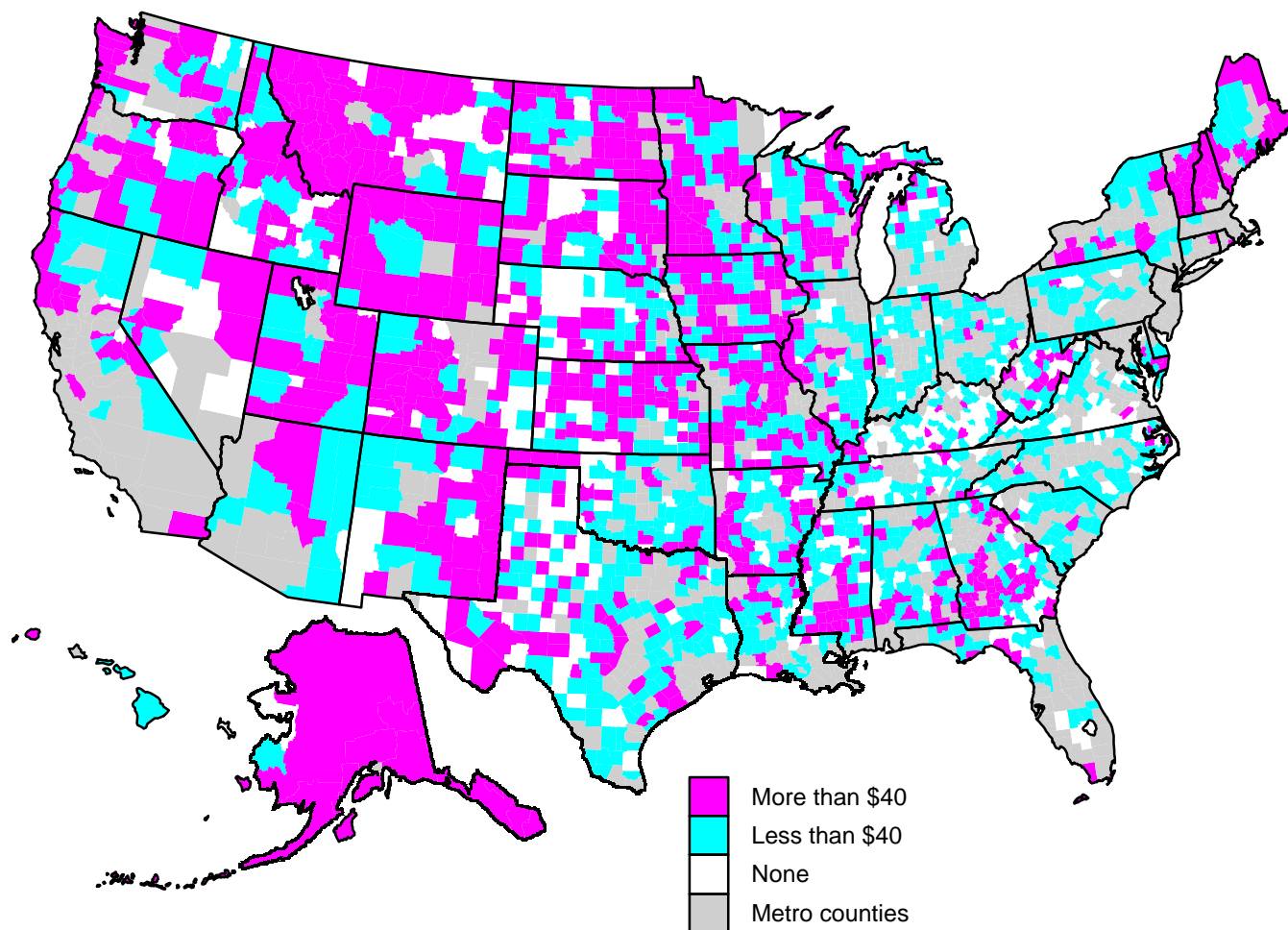
Of 2,276 nonmetro counties, all but 414 received some form of business assistance in 1994 from either SBA, USDA, or Commerce (fig.1). Many of the counties that received no Federal business assistance are in areas with declining populations, such as the Plains. The assistance seems to be concentrated in rapidly growing areas, such as the Rockies, and in places adjusting to economic difficulties (the Northwest) or natural disasters (the flood plains of the Mississippi and Missouri Rivers). This picture may be somewhat misleading, though, as it mainly reflects the SBA's small business loan program, which is larger than all the other business assistance programs combined.

Metro counties typically received more business assistance in 1994 than did nonmetro counties (fig. 2). Some types of nonmetro counties, such as farming and service counties, came close to the metro county average. Manufacturing and mining counties lagged far behind.

Figure 1

Per capita Federal nonmetro business assistance, fiscal year 1994

The counties not receiving assistance are in remote areas with little business activities



Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

SBA's Business Assistance Programs Are the Largest

The small business loan guarantee program has shown impressive growth in recent years, increasing the number of loans it guarantees to 56,000, totaling about \$8 billion by 1995. The Certified Development Company Program has shown similar growth. The program funding level for the Small Business Loan Guarantee Program increased about 40 percent for fiscal year 1996. Other SBA programs also experienced increases in fiscal year 1996. Some in Congress have proposed making considerable changes in SBA's programs. The Small Business Lending Enhancement Act of 1995 increased guarantee fees paid by participating banks to 3 percent. In addition, an annual fee was established that will be payable by the participating lender and not the borrower. Fees will also be assessed on loans that are sold into the secondary market. Although these changes could diminish private lender interest in the guaranteed loan program, they should reduce program budget costs.

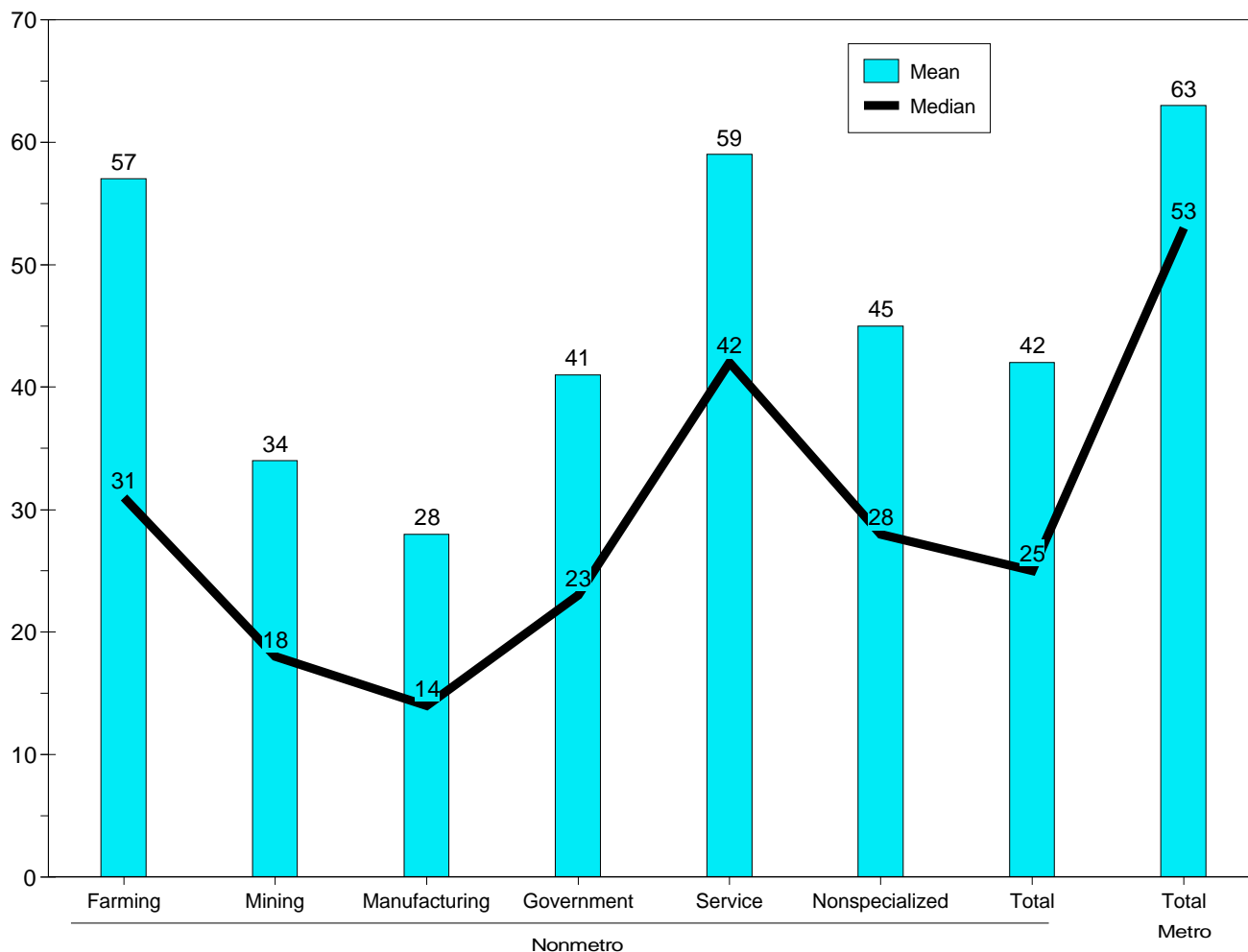
Recently, SBA has been developing and using quantitative, measurable lending goals to improve program effectiveness. Programs are assessed by the number and amount of loans guaranteed, the rate of defaults and recoveries, and hard-to-measure goals, such as economic benefits to small businesses and their communities. SBA has adjusted its accounting for loan subsidies to reflect that losses had been higher than estimated.

Figure 2

Per capita business assistance by county type, 1994

Only farming and service counties received average per capita funding levels similar to urban areas

Per capita \$



Note: The mean and median are calculated summing populations and business assistance dollars to arrive at the per capita measure.
Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

However, recent data suggest that the situation is improving. SBA is proposing several changes that will require legislative approval. Important proposals include changing the Certified Development Company Program into a direct loan program, increasing fees on the Small Business Investment Company Guarantees, and increasing the interest rate on disaster loans.

USDA Programs Serve a More Tightly Defined Group of Businesses

Since 1974, USDA's programs have provided more than 5,120 businesses with nearly \$5 billion in loan guarantees, reportedly helping to create or save over 460,000 jobs. The Rural Business-Cooperative Service administers most of USDA's rural business assistance programs, including technical assistance and research for agricultural cooperatives. Business and Industry (B&I) loan guarantees provide protection against financial loss creating an incentive for private lenders to extend more credit to rural businesses. Other programs, such as the intermediary relending program, allow sponsors to borrow from USDA to make loans to businesses and other organizations for development purposes.

Fiscal year 1996 funding levels increased for the B&I loan program to slightly over \$500 million. Under budget accounting rules, lower market interest rates have reduced the amount of interest-subsidy cost associated with the B&I program. This reduction in turn allows the actual amount of lending to be guaranteed to rise to just over \$700 million.

The legislation enacted in 1996 authorizes two new programs. Rural Business Opportunity Grants, not to exceed \$1.5 million annually, is to assist public bodies, private nonprofit community development corporations, and other entities. The program's purposes include identifying and analyzing business opportunities, providing technical training assistance, establishing business support centers, and coordinating regional, community, and local economic development planning. The new legislation also authorizes a Rural Venture Capital Demonstration Program. In each fiscal year, up to 10 community development venture capital organizations would be designated to demonstrate the value of loan guarantees in attracting private investment to rural businesses. This program would guarantee up to 30 percent of a venture capital organization's investment pool. Total guarantees are limited to \$15 million per fiscal year.

Commerce Has Smallest Presence in Nonmetro Business Assistance Programs

Having repeatedly faced the threat of shutdown, Commerce's business assistance programs were funded through continuing resolutions most of fiscal year 1996. Funding has not changed significantly for its two technical assistance programs, but changes in measuring performance may enable Commerce to improve the assistance it provides. The majority of the Manufacturing Extension Partnership's and Advanced Technology Program's funding went to metro areas. Nonmetro counties may have a difficult time qualifying for these funds since these programs focus on the kinds of advanced technology industries that tend to concentrate in urban areas.

The Economic Development Administration's (EDA) economic development assistance programs are carried out through a network of regional headquarters. EDA provides grants for public works, capacity building, economic and defense adjustment, and other financial assistance to help reduce substantial and persistent unemployment in economically distressed areas. Economic adjustment grants help communities adjust to a gradual erosion or a sudden change in economic conditions. These grants are awarded to qualifying revolving loan funds that make business assistance loans on preferential terms. Grant funds are used to leverage private sector investment in local business development.

EDA funding declined from \$465 million in fiscal year 1995 to just over \$335 million in fiscal year 1996. By some measures, EDA grants leverage as many as \$5 for every \$1 of grant money. EDA claims that in fiscal year 1995 its programs were responsible for more than 2.8 million jobs being created or saved nationally through \$1.9 billion in private sector capital, resulting from revolving loan fund activities loan assistance to over 7,000 businesses. *[George Wallace, 202-501-6751, gwallace@econ.ag.gov]*

Federal Business Assistance Comprises Many Programs

Financial Assistance Programs: These Federal programs support small business through credit access by making direct and guaranteed loans.¹ Programs are increasingly built around guaranteeing private sector lending.

U.S. Department of Agriculture

Intermediary Relending Program
Business and Industrial Loans
Rural Economic Development Loans

Small Business Administration

Economic Injury Disaster Loans
Loans for Small Businesses
Physical Disaster Loans
Small Business Investment Companies
Small Business Loans
Local Development Company Loans
Bond Guarantees for Surety Companies
Handicapped Assistance Loans
Veterans Loan Program
Certified Development Company Loans
Business Loans For 8(a) Program Participants

U.S. Department of Commerce

Economic Development Administration's Title IX Grants to start Revolving Loan Funds

Technical Assistance Programs: Provide Federal support to business by providing project grants to economic development entities. These programs are designed to convey necessary knowledge of business management, finance, and operation.

U.S. Department of Agriculture

Small Business Innovation Research
Rural Development Grants
Rural Technology Development Grants
Rural Economic Development Grants

Small Business Administration

Business Development Assistance to Small Business.
Minority Business Development (section 8(a) program)
Management and Technical Assistance for Socially Disadvantaged Businesses (Section 7(j))
Small Business Development Centers
Women's Business Ownership Assistance
Microloan Demonstration Program

U.S. Department of Commerce

Manufacturing Extension Partnership
Advanced Technology Program

¹Housing and Urban Development's Community Development Block Grant program is sometimes used to provide financial assistance to local businesses as well.